

ALGONA COMMUNITY SCHOOL DISTRICT  
INDEPENDENT AUDITOR'S REPORTS  
BASIC FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2007

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Algona Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>Board of Education (Before September 2006 Election)</b>		
David Fenchel	President	2007
Carl Westling	Vice President	2006
Floyd Lavrenz	Board Member	2007
Dale Person	Board Member	2008
Rodney Davis	Board Member	2008
Marc Singer	Board Member	2008
Keith Kuecker	Board Member	2006

<b>Board of Education (After September 2006 Election)</b>		
David Fenchel	President	2007
Floyd Lavrenz	Vice President	2007
Dale Person	Board Member	2008
Rodney Davis	Board Member	2008
Marc Singer	Board Member	2008
Keith Kuecker	Board Member	2009
Cheryl Grether	Board Member	2009

<b>School Officials</b>		
Ross M. Opsal	Superintendent (Resigned)	2007
Marty Fonley	Superintendent (Interim)	2007
Gail I. Carroll	District Secretary	2007
Carol Kenyon	District Treasurer	2007
Stephen F. Avery	Attorney	2007

# **NOLTE, CORNMAN & JOHNSON P.C.**

## **Certified Public Accountants**

(a professional corporation)

117 West 3rd Street North, Newton, Iowa 50208-3040

Telephone (641) 792-1910

### **INDEPENDENT AUDITOR'S REPORT**

To the Board of Education of the  
Algona Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Algona Community School District, Algona, Iowa, as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Algona Community School District at June 30, 2007, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated March 19, 2008 on our consideration of Algona Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 12 and 33 through 34 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board.

**Members American Institute & Iowa Society of Certified Public Accountants**

We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Algona Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for three years ended June 30, 2006 (none of which are presented herein) and expressed an unqualified opinion on those financial statements. The supplemental information included in Schedules 1 through 5, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

  
NOLTE, CORNMAN & JOHNSON, P.C.

March 19, 2008

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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Algona Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2007. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

### **2007 FINANCIAL HIGHLIGHTS**

- General Fund revenues decreased from \$11,907,783 in fiscal 2006 to \$11,660,265 in fiscal 2007, while General Fund expenditures increased from \$12,316,387 in fiscal 2006 to \$12,457,005 in fiscal 2007. This resulted in a decrease in the District's General Fund balance from a positive \$713,226 in fiscal 2006 to a deficit balance of \$81,480 in fiscal 2007.
- The decrease in General Fund revenues was attributable to decreases in local tax and state and federal grant revenue in fiscal 2007. The increase in expenditures was due primarily to an increase in instructional costs.
- Overall the District experienced a decrease in net assets in the governmental-type activities of \$594,392 and a decrease in the business-type activities of \$7,316.
- The October 2006 Certified Enrollment count resulted in a decrease of 16.3 students, representing a 1.3% decrease compared to the prior year.

### **USING THIS ANNUAL REPORT**

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Algona Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Algona Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Algona Community School District acts solely as an agent or custodial for the benefit of those outside of the School District.

Notes to the financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor funds.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

**Figure A-1**  
**Algona Community School District Annual Financial Report**

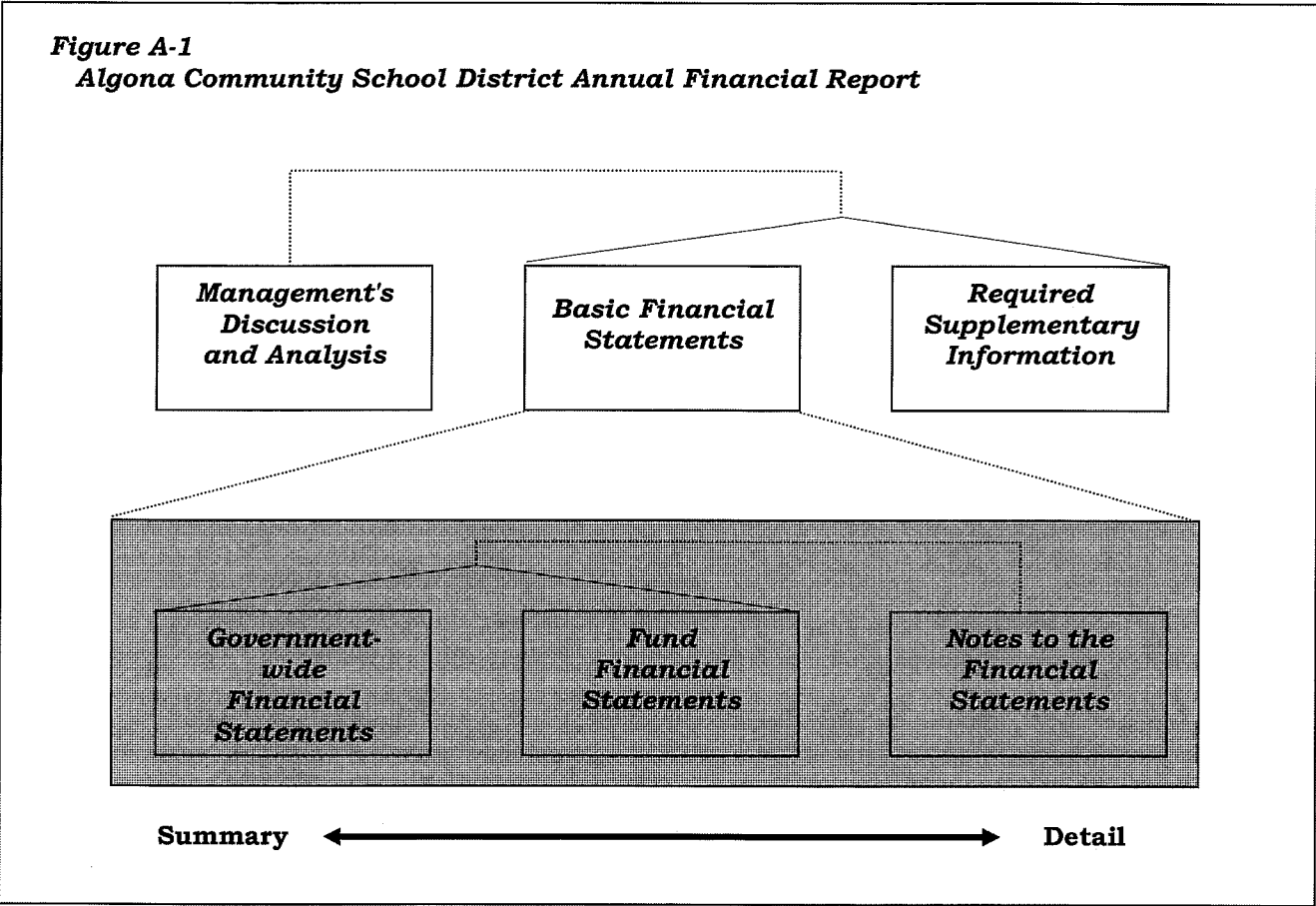


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

**Figure A-2**

**Major Features of the Government-Wide and Fund Financial Statements**

	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses, e.g., food service	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	<ul style="list-style-type: none"> <li>• Statement of net assets</li> <li>• Statement of activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance sheet</li> <li>• Statement of revenues, expenditures, and changes in fund balances</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of revenues, expenses and changes in net assets</li> <li>• Statement of cash flows</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of fiduciary net assets</li> <li>• Statement of changes in fiduciary net assets</li> </ul>
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

## REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

### Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.



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The two government-wide financial statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business-type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

### **Fund Financial Statements**

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has three kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds and Capital Projects.

The required financial statements for the governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's enterprise funds, one type of proprietary fund, are the same as its business-type activities, but provide more detail and additional information, such as cash flows. The District currently has two enterprise funds, the School Nutrition Fund and the Preschool Fund. The District's internal service fund, one type of proprietary fund, is the same as the governmental activities, but provide more detail and additional information, such as cash flows. The District currently has two internal service funds.

The required financial statements for the proprietary funds include a statement of revenues, expenses and changes in net assets and a statement of cash flows.

3) *Fiduciary funds*: The District is the trustee, or fiduciary, for assets that belong to others. These funds include Private-Purpose Trust.

- Private-Purpose Trust Fund – The District accounts for outside donations for scholarships for individual students in this fund.

The District is responsible for ensuring that the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the District-wide financial statements because it cannot use these assets to finance its operations.

The required financial statements for fiduciary funds include a statement of fiduciary net assets and a statement of changes in fiduciary net assets.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's total net assets at June 30, 2007 compared to June 30, 2006.

Figure A-3  
Condensed Statement of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2007	2006	2007	2006	2007	2006	2006-07
Current and other assets	\$ 7,720,750	7,110,480	3,959	17,491	7,724,709	7,127,971	8.37%
Capital assets	3,778,665	3,760,929	17,964	21,611	3,796,629	3,782,540	0.37%
Total assets	11,499,415	10,871,409	21,923	39,102	11,521,338	10,910,511	5.60%
Other liabilities	5,701,505	4,479,107	6,106	15,969	5,707,611	4,495,076	26.97%
Total liabilities	5,701,505	4,479,107	6,106	15,969	5,707,611	4,495,076	26.97%
Net assets:							
Invested in capital assets, net of related debt	3,778,665	3,760,929	17,964	21,611	3,796,629	3,782,540	0.37%
Restricted	1,138,679	897,582	0	0	1,138,679	897,582	26.86%
Unrestricted	880,566	1,733,791	(2,147)	1,522	878,419	1,735,313	-49.38%
Total net assets	\$ 5,797,910	6,392,302	15,817	23,133	5,813,727	6,415,435	-9.38%

The District's combined net assets decreased by 9.38%, or \$601,708, over the prior year. The largest portion of the District's net assets is the invested in capital assets, less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions, or enabling legislation on how they can be used. The District's restricted net assets increased \$241,097, or 26.86% over the prior year.

Unrestricted net assets - the part of net assets that can be used to finance day-to-day operations without constraint established by debt covenants, enabling legislation, or the legal requirement - decreased \$856,894 or 49.38%.

Figure A-4 shows the changes in net assets for the years ended June 30, 2007 and 2006.

Figure A-4 Changes of Net Assets							
	Governmental Activities		Business-type Activities		Total School District		Total Change
	2007	2006	2007	2006	2007	2006	2006-07
Revenues:							
Program revenues:							
Charges for services	\$ 1,887,097	1,871,515	278,468	280,445	2,165,565	2,151,960	0.63%
Operating grants and contributions and restricted interest	1,458,324	1,515,330	207,214	191,607	1,665,538	1,706,937	-2.43%
General revenues:							
Local tax	4,788,158	4,866,461	0	0	4,788,158	4,866,461	-1.61%
Local option sales and service tax	742,153	748,169	0	0	742,153	748,169	-0.80%
Unrestricted state grants	4,292,007	4,427,544	0	0	4,292,007	4,427,544	-3.06%
Other	107,555	89,491	0	0	107,555	89,491	20.19%
Transfers	0	(9,266)	0	9,266	0	0	0.00%
Total revenues	13,275,294	13,509,244	485,682	481,318	13,760,976	13,990,562	-1.64%
Program expenses:							
Governmental activities:							
Instruction	9,579,559	8,779,218	46	0	9,579,605	8,779,218	9.12%
Support services	3,434,346	3,553,710	1,681	0	3,436,027	3,553,710	-3.31%
Non-instructional programs	0	0	491,271	482,827	491,271	482,827	1.75%
Other expenses	855,781	909,336	0	0	855,781	909,336	-5.89%
Total expenses	13,869,686	13,242,264	492,998	482,827	14,362,684	13,725,091	4.65%
Change in net assets	(594,392)	266,980	(7,316)	(1,509)	(601,708)	265,471	-326.66%
Net assets beginning of year	6,392,302	6,125,322	23,133	24,642	6,415,435	6,149,964	4.32%
Net assets end of year	\$ 5,797,910	6,392,302	15,817	23,133	5,813,727	6,415,435	-9.38%

In fiscal 2007, property tax and unrestricted state grants account for 68.4% of the revenue from governmental activities while charges for services and operating grants and contributions account for 100.0% of the revenue from business type activities.

The District's total revenues were approximately \$13.8 million of which \$13.3 million was for governmental activities and less than \$0.5 million was for business type activities.

As shown in Figure A-4, the District as a whole experienced a decrease of 1.64% in revenues and a 4.65% increase in expenses. The increase in expenses was related to the increase in instructional costs during the year.

### Governmental Activities

Revenues for governmental activities were \$13,275,294 and expenses were \$13,869,686.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services and other expenses.

Figure A-5  
Total and Net Cost of Governmental Activities

	Total Cost of Services			Net Cost of Services		
	2007	2006	Change 2006-07	2007	2006	Change 2006-07
Instruction	\$ 9,579,559	8,779,218	9.12%	6,880,429	6,040,608	13.90%
Support services	3,434,346	3,553,710	-3.36%	3,239,009	3,339,859	-3.02%
Other expenses	855,781	909,336	-5.89%	404,827	474,952	-14.76%
Totals	<u>\$ 13,869,686</u>	<u>13,242,264</u>	<u>4.74%</u>	<u>10,524,265</u>	<u>9,855,419</u>	<u>6.79%</u>

- The cost financed by users of the District's programs was \$1,887,097.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$1,458,324.
- The net cost of governmental activities was financed with \$4,788,158 in local tax, \$742,153 in local option sales and service tax, \$4,292,007 in unrestricted state grants and \$18,393 in interest income.

### Business-Type Activities

Revenues of the District's business-type activities were \$485,682 and expenses were \$492,998. The District's business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

## INDIVIDUAL FUND ANALYSIS

As previously noted, the Algona Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balance of \$1,036,415, compared to last year's ending fund balances of \$1,586,791. However, the primary reason for the decrease was due to the decrease in fund balances of the General Fund.

### Governmental Fund Highlights

- The District's deteriorating General Fund financial position is the product of many factors. Decreases in local, state and federal source revenues in 2007 guaranteed a decrease in revenues. This coupled with increases in expenditures ensured the decline in the District's General Fund balance.
- The Special Revenue, Management Levy Fund increased from \$257,741 in 2006 to \$299,078 in 2007. The decrease in revenues was more than enough to offset the increase in expenditures during 2007 ensuring the increase in fund balance.
- An increase in local option sales and service tax during 2007 resulted in an increase revenues for the Capital Projects Fund in 2007. The increase in revenues along with the decrease in expenditures caused the Capital Projects fund balance to increase from \$366,719 in 2006 to \$542,816 in 2007.

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### **Proprietary Fund Highlights**

The School Nutrition Fund net assets decreased from \$23,133 at June 30, 2006 to \$13,688 at June 30, 2007, representing a decrease of approximately 40.8%. The District started a Preschool fund during the year which had ending net assets of \$2,129.

### **BUDGETARY HIGHLIGHTS**

Over the course of the year, Algona Community School District amended its budget one time to reflect additional expenditures. The amendment increased expenditures in all functions by \$1,927,439.

The District's revenues were \$458,785 more than budgeted revenues, a variance of 3.5%. The most significant variance resulted from the District receiving more in local sources than originally anticipated.

Total expenditures were less than budgeted, primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

In spite of the District's budgetary practice, the certified budget was exceeded in the instruction function due to the timing of expenditures paid at year-end without sufficient time to amend the certified budget.

### **CAPITAL ASSET AND DEBT ADMINISTRATION**

#### **Capital Assets**

At June 30, 2007, the District had invested \$3,796,629, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This amount represents a net increase of 0.37% from last year. More detailed information about capital assets is available in Note 5 to the financial statements. Depreciation expense for the year was \$404,116.

The original cost of the District's capital assets was \$12,619,234. Governmental funds account for \$12,511,889 with the remainder of \$107,335 in the Proprietary, School Nutrition Fund.

The largest percentage change in capital asset activity during the year occurred in the construction in progress category. The District's construction in progress totaled \$0 at June 30, 2007 compared to \$328,431 at June 30, 2006. This decrease resulted from the completion of the locker room project during the year.

Figure A-6  
Capital Assets, Net of Depreciation

	Governmental Activities		Business-type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2007	2006	2007	2006	2007	2006	2006-07
Land	\$ 37,674	37,674	0	0	37,674	37,674	0.00%
Construction in progress	0	328,431	0	0	0	328,431	-100.00%
Buildings	3,067,336	2,713,402	0	0	3,067,336	2,713,402	13.04%
Land improvements	137,839	108,301	0	0	137,839	108,301	27.27%
Machinery and equipment	535,816	573,121	17,964	21,611	553,780	594,732	-6.89%
Total	\$ 3,778,665	3,760,929	17,964	21,611	3,796,629	3,782,540	0.37%

### Long-Term Debt

At June 30, 2007, the District had no long-term debt outstanding.

### ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- A pattern of declining enrollment persists in the District. Enrollment has declined for the past 7 years, and projections of enrollment and the birth rate indicate several more years of decline. This will reduce the amount of revenue available to fund educational programs and service in the future.
- Low allowable growth over several years and enrollment decreases is negatively impacting the District's spending authority. Contractual increases and program changes cannot be made without thorough consideration of our unspent authorized budget.
- The elimination of the "budget guarantee" at 10% each year is reducing revenues to the District each year.
- Rapid and persistent increases in insurance costs and energy costs will create more financial hardships for the District in the future.

### CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Carol Kenyon, District Treasurer, Algona Community School District, Box 717, 200 North Phillips, Algona, Iowa, 50511.

## BASIC FINANCIAL STATEMENTS

ALGONA COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
JUNE 30, 2007

	Governmental Activities	Business-type Activities	Total
<b>Assets</b>			
Cash and pooled investments			
ISCAP(Note 4)	\$ 1,089,276	0	1,089,276
Other	1,332,089	544	1,332,633
Receivables:			
Property tax:			
Delinquent	71,302	0	71,302
Succeeding year	4,345,463	0	4,345,463
Income surtax	446,977	0	446,977
Interfund	17,000	(17,000)	0
Accounts	37,176	2,736	39,912
Accrued ISCAP interest(Note 4)	326	0	326
Due from other governments	381,141	0	381,141
Inventories	0	17,679	17,679
Capital assets, net of accumulated depreciation(Note 5)	3,778,665	17,964	3,796,629
<b>Assets</b>	<b>11,499,415</b>	<b>21,923</b>	<b>11,521,338</b>
<b>Liabilities</b>			
Accounts payable	23,963	458	24,421
Salaries and benefits payable	62,074	0	62,074
ISCAP warrants payable(Note 4)	1,091,000	0	1,091,000
ISCAP accrued interest payable(Note 4)	278	0	278
ISCAP unamortized premium	8,095	0	8,095
Incurred but not reported	170,000	0	170,000
Deferred revenue:			
Succeeding year property tax	4,345,463	0	4,345,463
Other	632	0	632
Unearned revenue	0	5,648	5,648
<b>Total Liabilities</b>	<b>5,701,505</b>	<b>6,106</b>	<b>5,707,611</b>
<b>Net Assets</b>			
Invested in capital assets, net of related debt	3,778,665	17,964	3,796,629
Restricted for:			
Talented and gifted	17,222	0	17,222
Beginning teacher mentoring	166	0	166
Additional teacher contract day	309	0	309
Administration mentoring	15	0	15
Non-public textbook	3,072	0	3,072
Capital projects	542,816	0	542,816
Physical plant & equipment levy	78,436	0	78,436
Management levy	299,078	0	299,078
Other special revenue purposes	197,565	0	197,565
Unrestricted	880,566	(2,147)	878,419
<b>Total Net Assets</b>	<b>\$ 5,797,910</b>	<b>15,817</b>	<b>5,813,727</b>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.



ALGONA COMMUNITY SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2007

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Charges for Services	Contributions and Restricted Interest	Operating Grants,	Govern-mental Activities	Business-Type Activities	Total
Expenses						
Functions/Programs						
Governmental activities:						
Instruction:						
Regular instruction	\$ 5,636,620	503,019	774,197	(4,359,404)	0	(4,359,404)
Special instruction	2,554,904	759,644	83,413	(1,711,847)	0	(1,711,847)
Other instruction	1,388,035	575,249	3,608	(809,178)	0	(809,178)
	9,579,559	1,837,912	861,218	(6,880,429)	0	(6,880,429)
Support services:						
Student services	320,747	0	0	(320,747)	0	(320,747)
Instructional staff services	223,843	0	0	(223,843)	0	(223,843)
Administration services	1,118,366	0	0	(1,118,366)	0	(1,118,366)
Operation and maintenance of plant services	1,237,238	0	0	(1,237,238)	0	(1,237,238)
Transportation services	534,152	49,185	146,152	(338,815)	0	(338,815)
	3,434,346	49,185	146,152	(3,239,009)	0	(3,239,009)
Other expenditures:						
Facility acquisitions	111,959	0	0	(111,959)	0	(111,959)
AEA flowthrough	450,954	0	450,954	0	0	0
Depreciation (unallocated)*	292,868	0	0	(292,868)	0	(292,868)
	855,781	0	450,954	(404,827)	0	(404,827)
Total governmental activities	13,869,686	1,887,097	1,458,324	(10,524,265)	0	(10,524,265)
Business-Type activities:						
Instructional:						
Regular	46	2,175	0	0	2,129	2,129
Support services:						
Administration services	943	943	0	0	0	0
Operation and maintenance of plant services	738	738	0	0	0	0
	1,681	1,681	0	0	0	0
Non-instructional programs:						
Nutrition services	491,271	274,612	207,214	0	(9,445)	(9,445)
Total business-type activities	492,998	278,468	207,214	0	(7,316)	(7,316)
Total	\$ 14,362,684	2,165,565	1,665,538	(10,524,265)	(7,316)	(10,531,581)
General Revenues:						
Local tax for:						
General purposes				\$ 4,788,158	0	4,788,158
Local option sales and service tax				742,153	0	742,153
Unrestricted state grants				4,292,007	0	4,292,007
Unrestricted investment earnings				18,393	0	18,393
Other				89,162	0	89,162
Total general revenues				9,929,873	0	9,929,873
Changes in net assets				(594,392)	(7,316)	(601,708)
Net assets beginning of year				6,392,302	23,133	6,415,435
Net assets end of year				\$ 5,797,910	15,817	5,813,727

\* This amount excludes the depreciation that is included in the direct expense of various programs.

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

ALGONA COMMUNITY SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2007

	General	Manage- ment Levy	Capital Projects	Nonmajor Special Revenue	Total
<b>Assets</b>					
Cash and pooled investments:					
ISCAP(Note 4)	\$ 1,089,276	0	0	0	1,089,276
Other	0	281,746	412,318	256,095	950,159
Receivables:					
Property tax					
Delinquent	67,348	3,954	0	0	71,302
Succeeding year	4,151,463	194,000	0	0	4,345,463
Income surtax	446,977	0	0	0	446,977
Accounts	10,385	13,378	495	5,277	29,535
Interfund	0	0	0	17,000	17,000
Accrued ISCAP interest (Note 4)	326	0	0	0	326
Due from other governments	244,542	0	136,599	0	381,141
<b>Total Assets</b>	<b>\$ 6,010,317</b>	<b>493,078</b>	<b>549,412</b>	<b>278,372</b>	<b>7,331,179</b>
<b>Liabilities and Fund Balances</b>					
Liabilities:					
Excess of warrants issued					
over bank balance	\$ 316,282	0	0	0	316,282
Accounts payable	14,996	0	6,596	2,371	23,963
Salaries and benefits payable	62,074	0	0	0	62,074
ISCAP warrants payable (Note 4)	1,091,000	0	0	0	1,091,000
ISCAP accrued interest payable (Note 4)	278	0	0	0	278
ISCAP unamortized premium	8,095	0	0	0	8,095
Deferred revenue:					
Succeeding year property tax	4,151,463	194,000	0	0	4,345,463
Income surtax	446,977	0	0	0	446,977
Other	632	0	0	0	632
Total liabilities	6,091,797	194,000	6,596	2,371	6,294,764
Fund balances:					
Reserved for:					
Talented and gifted	17,222	0	0	0	17,222
Beginning teacher mentoring	166	0	0	0	166
Additional teacher contract day	309	0	0	0	309
Administration mentoring	15	0	0	0	15
Non-public textbook	3,072	0	0	0	3,072
Unreserved	(102,264)	299,078	542,816	276,001	1,015,631
Total fund balances	(81,480)	299,078	542,816	276,001	1,036,415
<b>Total Liabilities and Fund Balances</b>	<b>\$ 6,010,317</b>	<b>493,078</b>	<b>549,412</b>	<b>278,372</b>	<b>7,331,179</b>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

ALGONA COMMUNITY SCHOOL DISTRICT  
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET ASSETS  
JUNE 30, 2007

Total fund balances of governmental funds (page 15) \$ 1,036,415

*Amounts reported for governmental activities in the  
statement of net assets are different because:*

Capital assets used in governmental activities are not  
financial resources and, therefore, are not reported as  
assets in in the governmental funds. 3,778,665

Blending of the Internal Service Funds to be reflected  
on an entity-wide basis. 535,853

Accounts receivable income surtax, are not yet available  
to finance expenditures of the current fiscal period. 446,977

Net assets of governmental activites (page 13) \$ 5,797,910

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

ALGONA COMMUNITY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2007

	General	Management Levy	Capital Projects	Nonmajor Special Revenue	Total
<b>REVENUES:</b>					
Local sources:					
Local tax	\$ 4,491,101	235,780	742,153	0	5,469,034
Tuition	1,262,663	0	0	0	1,262,663
Other	158,938	16,908	25,222	533,479	734,547
Intermediate sources	1,050	0	0	0	1,050
State sources	5,375,678	210	0	0	5,375,888
Federal sources	370,835	0	0	0	370,835
Total revenues	11,660,265	252,898	767,375	533,479	13,214,017
<b>EXPENDITURES:</b>					
Current:					
Instruction:					
Regular instruction	5,511,699	97,080	0	0	5,608,779
Special instruction	2,519,046	0	0	0	2,519,046
Other instruction	872,587	0	0	503,463	1,376,050
	8,903,332	97,080	0	503,463	9,503,875
Support services:					
Student services	318,336	0	0	0	318,336
Instructional staff services	192,490	0	29,095	0	221,585
Administration services	1,102,116	3,644	1,100	0	1,106,860
Operation and maintenance					
of plant services	1,023,479	92,791	101,215	2,870	1,220,355
Transportation services	466,298	18,046	0	250	484,594
	3,102,719	114,481	131,410	3,120	3,351,730
Other expenditures:					
Facilities acquisitions	0	0	459,868	0	459,868
AEA flowthrough	450,954	0	0	0	450,954
	450,954	0	459,868	0	910,822
Total expenditures	12,457,005	211,561	591,278	506,583	13,766,427
Excess(deficiency) of revenues over(under) expenditures	(796,740)	41,337	176,097	26,896	(552,410)
Other financing sources:					
Sale of equipment	2,034	0	0	0	2,034
Net change in fund balances	(794,706)	41,337	176,097	26,896	(550,376)
Fund balance beginning of year	713,226	257,741	366,719	249,105	1,586,791
Fund balance end of year	\$ (81,480)	299,078	542,816	276,001	1,036,415

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

ALGONA COMMUNITY SCHOOL DISTRICT  
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS  
 TO THE STATEMENT OF ACTIVITIES  
 YEAR ENDED JUNE 30, 2007

Net change in fund balances - total governmental funds(page 17) \$ (550,376)

*Amounts reported for governmental activities in the  
 statement of activities are different because:*

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Capital outlays expenditures and depreciation expense in the current year, are as follows:

Capital expenditures	\$ 432,026	
Depreciation expense	(400,469)	
Loss on asset disposal	<u>(13,821)</u>	17,736

Income surtax account receivable is not available to finance expenditures of the current year period in the governmental funds. 61,277

Net change in Internal Service Funds charged back against expenditures made for self-funded insurance at an entity-wide basis. (123,029)

Changes in net assets of governmental activities(page 14) \$ (594,392)

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

ALGONA COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
JUNE 30, 2007

	Business-Type Activities: Enterprise Funds			Governmental Activities: Internal Service Fund
	School Nutrition	Preschool	Total	
<b>Assets</b>				
Cash and cash equivalents	\$ (1,585)	2,129	544	698,212
Receivables:				
Accounts	2,736	0	2,736	7,641
Inventories	17,679	0	17,679	0
Capital assets, net of accumulated depreciation (Note 5)	17,964	0	17,964	0
<b>Total Assets</b>	<b>36,794</b>	<b>2,129</b>	<b>38,923</b>	<b>705,853</b>
<b>Liabilities</b>				
Interfund payable	17,000	0	17,000	0
Accounts payable	458	0	458	0
Unearned revenue	5,648	0	5,648	0
Incurred but not reported	0	0	0	170,000
<b>Total Liabilities</b>	<b>23,106</b>	<b>0</b>	<b>23,106</b>	<b>170,000</b>
<b>Net Assets</b>				
Invested in capital assets	17,964	0	17,964	0
Unrestricted	(4,276)	2,129	(2,147)	535,853
<b>Total Net Assets</b>	<b>\$ 13,688</b>	<b>2,129</b>	<b>15,817</b>	<b>535,853</b>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

ALGONA COMMUNITY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS  
PROPRIETARY FUNDS  
YEAR ENDED JUNE 30, 2007

	Business-Type Activities: Enterprise Funds			Governmental Activities: Internal Service Fund
	School Nutrition	Preschool	Total	
OPERATING REVENUE:				
Local sources:				
Other local sources:				
Charges for services	\$ 276,293	2,175	278,468	2,016,811
TOTAL OPERATING REVENUES	276,293	2,175	278,468	2,016,811
OPERATING EXPENSES:				
Instructional:				
Regular:				
Supplies	0	46	46	0
Support Services:				
Administration:				
Benefits	0	0	0	1,784,040
Services	663	0	663	362,215
Supplies	0	0	0	810
Other	280	0	280	0
Operation and maintenance of plant services:				
Services	738	0	738	0
	1,681	0	1,681	2,147,065
Non-instructional programs:				
Food service operations:				
Salaries	132,448	0	132,448	0
Benefits	87,579	0	87,579	0
Supplies	266,731	0	266,731	0
Depreciation	3,647	0	3,647	0
Other	866	0	866	0
	491,271	0	491,271	0
TOTAL OPERATING EXPENSES	492,952	46	492,998	2,147,065
OPERATING INCOME (LOSS)	(216,659)	2,129	(214,530)	(130,254)
NON-OPERATING REVENUES:				
Interest	0	0	0	7,225
State sources	6,509	0	6,509	0
Federal sources	200,705	0	200,705	0
TOTAL NON-OPERATING REVENUES	207,214	0	207,214	7,225
Change in net assets	(9,445)	2,129	(7,316)	(123,029)
Net assets beginning of year	23,133	0	23,133	658,882
Net assets end of year	\$ 13,688	2,129	15,817	535,853

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

ALGONA COMMUNITY SCHOOL DISTRICT  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
YEAR ENDED JUNE 30, 2007

	Business-Type Activities: Enterprise Funds			Governmental Activities: Internal Service Fund
	School Nutrition	Preschool	Total	
Cash flows from operating activities:				
Cash received from sale of lunches and breakfasts	\$ 274,060	0	274,060	0
Cash received from miscellaneous operating activities	4,176	2,175	6,351	2,022,134
Cash payments to employees for services	(220,027)	0	(220,027)	(1,784,040)
Cash payments to suppliers for goods or services	(245,550)	(46)	(245,596)	(318,025)
Net cash provided by(used in) operating activities	(187,341)	2,129	(185,212)	(79,931)
Cash flows from non-capital financing activities:				
Transfer from Activity Fund	2,000	0	2,000	0
State grants received	6,509	0	6,509	0
Federal grants received	175,874	0	175,874	0
Net cash provided by non-capital financing activities	184,383	0	184,383	0
Cash flows from investing activities:				
Interest on investments	0	0	0	7,225
Net increase(decrease) in cash and cash equivalents	(2,958)	2,129	(829)	(72,706)
Cash and cash equivalents at beginning of year	1,373	0	1,373	770,918
Cash and cash equivalents at end of year	\$ (1,585)	2,129	544	698,212
Reconciliation of operating income(loss) to net cash provided by(used in) operating activities:				
Operating income(loss)	\$ (216,659)	2,129	(214,530)	(130,254)
Adjustments to reconcile operating income(loss) to net cash provided by(used in) operating activities:				
Commodities consumed	24,831	0	24,831	0
Depreciation	3,647	0	3,647	0
(Increase)decrease in accounts receivable	(2,736)	0	(2,736)	5,323
Increase in inventories	(1,561)	0	(1,561)	0
Increase in accounts payable	458	0	458	0
Increase in incurred but not reported	0	0	0	45,000
Increase in unearned revenue	4,679	0	4,679	0
Net cash provided by(used in) operating activities	\$ (187,341)	2,129	(185,212)	(79,931)
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:				
Current assets:				
Cash and pooled investments	\$ (1,585)	2,129	544	698,212
NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:				

During the year ended June 30, 2007, the District received Federal commodities valued at \$24,831.

SEE NOTES TO BASIC FINANCIAL STATEMENTS.



ALGONA COMMUNITY SCHOOL DISTRICT  
STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
JUNE 30, 2007

		Private Purpose Trust Scholarship
<b>Assets</b>		
Cash and pooled investments	\$	115,934
Accounts receivable		183
<b>Total Assets</b>	<b>\$</b>	<b>116,117</b>
<b>Net Assets</b>		
Unrestricted	\$	116,117
<b>Total Net Assets</b>	<b>\$</b>	<b>116,117</b>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

ALGONA COMMUNITY SCHOOL DISTRICT  
 STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
 FIDUCIARY FUNDS  
 YEAR ENDED JUNE 30, 2007

	Private Purpose Trust Scholarship
Additions:	
Local sources:	
Interest	\$ 1,117
Donations	115,000
Total additions	<u>116,117</u>
Deductions:	
Scholarships	<u>0</u>
Change in net assets	116,117
Net assets beginning of year	<u>0</u>
Net assets end of year	<u><u>\$ 116,117</u></u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

ALGONA COMMUNITY SCHOOL DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2007

(1) **Summary of Significant Accounting Policies**

The Algona Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the Cities of Algona and Burt, Iowa, and the predominate agricultural territory in Kossuth County. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Algona Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The Algona Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Kossuth County Assessors' Conference Board.

B. Basis of Presentation

Government-wide financial statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference

reported as net assets. Net assets are reported in three categories:

*Invested in capital assets, net of related debt* consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

*Restricted net assets* result when constraints placed on net assets use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net asset* consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the Government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The Capital Projects Fund is used to account for all resources used in the acquisition of capital facilities.

The Special Revenue - Management Levy Fund is utilized to account for the payment of property insurance and early retirement benefits.

The District reports the following major propriety funds:

The District's proprietary funds are the Enterprise, School Nutrition Fund, the Preschool Fund and the Internal Service Fund. The School Nutrition Fund is used to account for the food service operations of the District. The Preschool fund is used to account for preschool operations of the District. The Internal Service Fund is used to account for the District's self-funded health insurance plan.

The District also reports fiduciary funds which focus on net assets and changes in net assets. The District's fiduciary funds include the following:

The Private Purpose Trust Fund is used to account for assets held by the District under trust agreements, which require income earned to be used to benefit individuals through scholarship awards.

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary and fiduciary funds financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board

Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's enterprise fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Balances

The following accounting policies are followed in preparing the balance sheet:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in the governmental funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the Government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2005 assessed property valuations; is for the tax accrual period July 1, 2006 through June 30, 2007 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2006.

Due from Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, machinery and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide statement of net assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Land	\$ 3,500
Buildings	3,500
Land improvements	3,500
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	3,500

Capital assets are depreciated using the straight line method over the following estimated useful lives:

Asset Class	Estimated Useful Lives (In Years)
Buildings	50 years
Land improvements	20 years
Machinery and equipment	5-12 years

Salaries and Benefits Payable - Payroll and related expenditures for hourly employees corresponding to the current school year, which is payable in July and August, have been accrued as liabilities.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue

consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the statement of net assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Unearned Revenues - Unearned revenues are monies collected for lunches that have not yet been served. The lunch account balances will either be reimbursed or served lunches. The lunch account balances are reflected on the Statement of Net Assets in the Proprietary, School Nutrition Fund.

Long-term Liabilities - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Balances - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the Government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

#### E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2007, expenditures in the instruction function exceeded the amount budgeted.

### (2) **Cash and Pooled Investments**

The District's deposits at June 30, 2007 were entirely covered by federal depository insurance or State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The District had no investments at June 30, 2007.

### (3) **Due From and Due to Other Funds**

At June 30, 2007 the interfund receivables and payables consisted of the following:



Receivable Fund	Payable Fund	Amount
Special Revenue, Student Activity	Enterprise, School Nutrition	\$ 17,000

**(4) Iowa School Cash Anticipation Program (ISCAP)**

The District participates in the Iowa Schools Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. ISCAP accounts are maintained for each participating entity, and monthly statements are provided regarding their cash balance, interest earnings and amounts available for withdrawal for each outstanding series of warrants. Bankers Trust Co. is the trustee for the program. A summary of the District's participation in ISCAP at June 30, 2007 is as follows:

Series	Warrant Date	Final Warrant Maturity	Investments	Accrued Interest Receivable	Warrants Payable	Accrued Interest Payable
2007-08A	6/28/07	6/27/08	\$ 1,089,276	326	1,091,000	278

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts. In addition, the District must make minimum warrant repayments of the 25<sup>th</sup> of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. No ISCAP advance activity in the General Fund was noted for the year ended June 30, 2007.

The warrants bear interest and the available proceeds of the warrants are invested at the interest rates shown below:

Series	Interest Rates on Warrants	Interest Rates on Investments
2007-08A	4.500%	5.455%

**(5) Capital Assets**

Capital assets activity for the year ended June 30, 2007 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 37,674	0	0	37,674
Construction in progress	328,431	182,760	511,191	0
Total capital assets not being depreciated	366,105	182,760	511,191	37,674
Capital assets being depreciated:				
Buildings	7,819,875	619,587	0	8,439,462
Land improvements	570,911	56,753	0	627,664
Machinery and equipment	3,344,962	84,117	21,980	3,407,099
Total capital assets being depreciated	11,735,748	760,457	21,980	12,474,225
Less accumulated depreciation for:				
Buildings	5,106,473	265,653	0	5,372,126
Land improvements	462,610	27,215	0	489,825
Machinery and equipment	2,771,841	107,601	8,159	2,871,283
Total accumulated depreciation	8,340,924	400,469	8,159	8,733,234
Total capital assets being depreciated, net	3,394,824	359,988	13,821	3,740,991
Governmental activities capital assets, net	\$ 3,760,929	542,748	525,012	3,778,665

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business-type activities:				
Machinery and equipment	\$ 107,335	0	0	107,335
Less accumulated depreciation	85,724	3,647	0	89,371
Business-type activities capital assets, net	\$ 21,611	(3,647)	0	17,964

Depreciation expense was charged by the District as follows:

Governmental activities:	
Instruction:	
Regular	\$ 12,815
Other	8,801
Support services:	
Administration services	4,964
Operation and maintenance of plant services	22,463
Transportation	58,558
	107,601
Unallocated depreciation	292,868
Total governmental activities depreciation expense	\$ 400,469
Business-type activities:	
Food services	\$ 3,647

**(6) Pension and Retirement Benefits**

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2007, 2006 and 2005. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2007, 2006, and 2005 were \$418,388, \$408,208, and \$395,567, respectively, equal to the required contributions for each year.

**(7) Risk Management**

Algona Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**(8) Area Education Agency**

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$450,954 for the year ended June 30, 2007 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

**(9) Budget Overexpenditure**

Per the Code of Iowa, expenditures may not legally exceed budgeted appropriations at the functional area level. During the year ended June 30, 2007, expenditures in the instruction function exceeded the amount budgeted.

**(10) Deficit Fund Balance/Net Assets**

The District's General Fund had a negative unreserved fund balance of \$102,264. The District also had a negative unrestricted net assets in the Nutrition Fund of \$4,276.

REQUIRED SUPPLEMENTARY INFORMATION

ALGONA COMMUNITY SCHOOL DISTRICT  
BUDGETARY COMPARISON OF REVENUES, EXPENDITURES AND  
CHANGES IN BALANCES -  
BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS  
AND PROPRIETARY FUNDS  
REQUIRED SUPPLEMENTARY INFORMATION  
YEAR ENDED JUNE 30, 2007

	Governmental Funds Actual	Proprietary Funds Actual	Total Actual	Budgeted Amounts		Final to Actual Variance
				Original	Final	
Revenues:						
Local sources	\$ 7,466,244	278,468	7,744,712	7,356,052	7,356,052	388,660
Intermediate sources	1,050	0	1,050	0	0	1,050
State sources	5,375,888	6,509	5,382,397	5,334,612	5,334,612	47,785
Federal sources	370,835	200,705	571,540	550,250	550,250	21,290
Total revenues	13,214,017	485,682	13,699,699	13,240,914	13,240,914	458,785
Expenditures:						
Instruction	9,503,875	46	9,503,921	8,886,290	9,386,290	(117,631)
Support services	3,351,730	1,681	3,353,411	2,887,714	4,062,976	709,565
Non-instructional programs	0	491,271	491,271	430,650	582,827	91,556
Other expenditures	910,822	0	910,822	1,061,231	1,161,231	250,409
Total expenditures	13,766,427	492,998	14,259,425	13,265,885	15,193,324	933,899
Excess(deficiency) of revenues over(under) expenditures	(552,410)	(7,316)	(559,726)	(24,971)	(1,952,410)	1,392,684
Other financing sources, net	2,034	0	2,034	1,000	1,000	1,034
Excess(deficiency) of revenues and other financing sources over(under) expenditures	(550,376)	(7,316)	(557,692)	(23,971)	(1,951,410)	1,393,718
Balance beginning of year	1,586,791	23,133	1,609,924	2,019,829	2,019,829	(409,905)
Balance end of year	\$ 1,036,415	15,817	1,052,232	1,995,858	68,419	983,813

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

ALGONA COMMUNITY SCHOOL DISTRICT  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING  
YEAR ENDED JUNE 30, 2007

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standard Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds except Private-Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on a GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions not by fund or fund type. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, 2007, the District adopted one budget amendment increasing budgeted expenditures by \$1,927,439.

During the year ended June 30, 2007, expenditures in the instruction function exceeded the amount budgeted.

OTHER SUPPLEMENTARY INFORMATION

ALGONA COMMUNITY SCHOOL DISTRICT  
 COMBINING BALANCE SHEET  
 NONMAJOR SPECIAL REVENUE FUNDS  
 JUNE 30, 2007

		Physical Plant and Equipment Levy	Student Activity	Total
<b>Assets</b>				
Cash and pooled investments	\$	78,324	177,771	256,095
Receivables:				
Accounts		112	5,165	5,277
Interfund		0	17,000	17,000
<b>Total Assets</b>	\$	78,436	199,936	278,372
<b>Liabilities and Fund Balances</b>				
Liabilities				
Accounts payable	\$	0	2,371	2,371
Unreserved fund balances		78,436	197,565	276,001
<b>Total Liabilities and Fund Balances</b>	\$	78,436	199,936	278,372

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.



ALGONA COMMUNITY SCHOOL DISTRICT  
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES  
 NONMAJOR SPECIAL REVENUE  
 YEAR ENDED JUNE 30, 2007

	Physical Plant and Equipment Levy	Student Activity	Total
REVENUES:			
Local sources:			
Other	\$ 2,159	531,320	533,479
EXPENDITURES:			
Current:			
Instruction:			
Other instruction	0	503,463	503,463
Support services:			
Operation and maintenance of plant services	2,870	0	2,870
Transportation services	0	250	250
	2,870	250	3,120
TOTAL EXPENDITURES	2,870	503,713	506,583
Net change in fund balances	(711)	27,607	26,896
Fund balance beginning of year	79,147	169,958	249,105
Fund balance end of year	\$ 78,436	197,565	276,001

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

ALGONA COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS  
 YEAR ENDED JUNE 30, 2007

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Concession	\$ (19,303)	50,562	46,782	(15,523)
Concession equipment	2,308	809	510	2,607
Interest	208	956	1,164	0
Pepsi	0	0	0	0
Public broadcasting	792	124	0	916
Special advertising	17,962	14,411	10,528	21,845
Book fair-Bertha Godfrey	2,793	4,101	6,314	580
Leadership-Bertha Godfrey	4,287	17,645	17,859	4,073
Book fair-Bryant	1,471	2,993	4,088	376
Leadership-Bryant	2,434	1,584	2,014	2,004
Book fair-Lucia Wallace	1,042	2,944	3,706	280
Leadership-Lucia Wallace	18,874	20,949	18,603	21,220
MS boys basketball	0	1,238	0	1,238
MS softball	0	1,873	0	1,873
MS-vocal music	242	108	154	196
MS-instrumental music	(1,655)	2,333	678	0
MS-vocal/band uniforms	1,173	398	0	1,571
MS-book fair	61	2,375	2,506	(70)
MS-cheerleaders	1,093	200	426	867
MS-leadership	5,888	5	1,630	4,263
MS-quiz bowl	633	280	305	608
MS-science fair	1,140	2,098	2,524	714
MS-student senate	3,356	5,647	6,247	2,756
MS-student travel	(151)	28,160	27,511	498
MS-teams	715	42,407	28,327	14,795
MS-teams 6th grade	3,281	2,579	3,153	2,707
MS-teams 7th grade	2,029	2,564	3,085	1,508
MS-teams 8th grade	1,830	2,714	4,462	82
HS drama/speech	3,413	8,733	11,746	400
HS-vocal music	1,425	2,290	1,411	2,304
HS-instrumental music	0	5,172	4,922	250
HS-vocal/band uniforms	757	1,585	1,502	840
HS swing choir & band	2,611	812	538	2,885
HS band tour	17,530	53,253	56,034	14,749
HS vocal tour	4,795	4,695	2,420	7,070
HS athletics general	15,740	16,114	13,067	18,787
HS cross country	0	776	776	0
HS boys basketball	0	7,236	7,236	0
HS boys football	0	10,572	10,572	0
HS baseball	0	7,784	7,784	0
HS boys track	0	3,430	3,430	0
HS boys golf	0	1,123	1,123	0
HS wrestling	0	3,719	3,719	0
HS girls basketball	0	5,919	5,919	0
HS volleyball	0	4,993	4,993	0
HS softball	0	7,680	7,680	0
HS girls track	0	4,046	4,046	0
HS girls golf	0	160	160	0
HS academics	9,192	7,865	4,317	12,740
HS-ACT-ELC	1,670	971	1,074	1,567
HS AFS	6,545	106	0	6,651

ALGONA COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS  
 YEAR ENDED JUNE 30, 2007

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
HS book fair	167	0	0	167
HS cheerleaders	1,626	7,540	6,076	3,090
Class of 2007	533	0	533	0
Class of 2008	1,220	5,902	5,652	1,470
Class of 2009	980	28	140	868
Class of 2010	0	3,772	2,844	928
HS drill team	5,493	13,452	12,572	6,373
FFA	319	47,055	41,608	5,766
Construction club	94	0	0	94
Hosa	0	336	326	10
HS leadership	435	1,667	1,644	458
MMH	1,566	350	67	1,849
HS mock trial/ACAD	258	2,335	2,526	67
Model UN	454	2,449	2,000	903
National honor society	0	150	0	150
Outdoor club	1,084	703	667	1,120
P.E. club	17,284	12,950	22,368	7,866
Peer helpers	570	660	401	829
Pep council	1	0	0	1
Prom improvement	540	432	334	638
HS quiz bowl	264	1,451	1,078	637
HS spanish club	2,728	0	0	2,728
HS student senate	241	996	772	465
TV. productions	1,303	1,889	1,628	1,564
Weight lifting club	(26)	323	290	7
HS yearbook	0	19,861	16,109	3,752
HS special tournament	0	40	40	0
HS special math	64	0	0	64
HS special bowling	377	0	0	377
HS special cross country	(62)	1,417	1,712	(357)
HS special swim team	1,996	3,508	662	4,842
HS special boys basketball	2,973	5,413	5,167	3,219
HS special football	626	1,664	989	1,301
HS special baseball	1,219	7,125	7,107	1,237
HS special boys track	(106)	3,239	2,099	1,034
HS special boys golf	812	1,562	1,815	559
HS special wrestling	8	133	128	13
HS special girls basketball	2,229	2,407	3,848	788
HS special volleyball	1,212	1,689	1,973	928
HS special softball	5,119	5,697	9,527	1,289
HS special girls track	175	1,251	1,249	177
HS special girls golf	1	783	717	67
Total	\$ 169,958	531,320	503,713	197,565

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

ALGONA COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION  
 ALL GOVERNMENTAL FUND TYPES  
 FOR THE LAST FOUR YEARS

	Modified Accrual Basis			
	Years Ended June 30,			
	2007	2006	2005	2004
Revenues:				
Local sources:				
Local tax	\$ 5,469,034	5,614,630	5,742,171	5,725,990
Tuition	1,262,663	1,247,756	1,112,659	886,818
Other	734,547	720,612	649,007	689,877
Intermediate sources	1,050	1,050	0	0
State sources	5,375,888	5,447,395	5,285,230	5,335,106
Federal sources	370,835	487,067	676,384	427,455
Total	<u>\$ 13,214,017</u>	<u>13,518,510</u>	<u>13,465,451</u>	<u>13,065,246</u>
Expenditures:				
Instruction:				
Regular instruction	\$ 5,608,779	4,965,295	4,920,243	5,123,535
Special instruction	2,519,046	2,531,517	2,610,995	2,538,533
Other instruction	1,376,050	1,591,941	1,526,829	1,344,987
Support services:				
Student services	318,336	298,708	294,861	302,558
Instructional staff services	221,585	317,399	207,896	283,626
Administration services	1,106,860	1,167,238	1,092,163	935,202
Operation and maintenance of plant services	1,220,355	1,282,805	1,043,524	941,734
Transportation services	484,594	605,476	482,887	318,694
Non-instructional	0	0	0	17,800
Other expenditures:				
Facilities acquisitions	459,868	737,059	416,316	576,657
Long Term Debt:				
Principal	0	0	0	600,000
Interest	0	0	0	34,740
AEA flow-through	450,954	434,384	430,727	440,718
Total	<u>\$ 13,766,427</u>	<u>13,931,822</u>	<u>13,026,441</u>	<u>13,458,784</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

ALGONA COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2007

GRANTOR/PROGRAM	CFDA NUMBER	GRANT NUMBER	PROGRAM EXPENDITURES
INDIRECT:			
DEPARTMENT OF AGRICULTURE:			
IOWA DEPARTMENT OF EDUCATION:			
FOOD DONATION (non-cash)	10.550	FY 07	\$ 24,831
SCHOOL NUTRITION CLUSTER PROGRAMS:			
SCHOOL BREAKFAST PROGRAM	10.553	FY 07	34,866
NATIONAL SCHOOL LUNCH PROGRAM	10.555	FY 07	141,008
			<u>175,874</u>
DEPARTMENT OF EDUCATION:			
IOWA DEPARTMENT OF EDUCATION:			
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES	84.010	0126-G	<u>142,572</u>
INNOVATIVE EDUCATION PROGRAM			
STRATEGIES (TITLE V PROGRAM)	84.298	FY 07	<u>2,143</u>
SAFE AND DRUG-FREE SCHOOLS AND COMMUNITIES - STATE GRANTS	84.186	FY 07	<u>5,399</u>
TITLE IIA - FEDERAL TEACHER QUALITY PROGRAM	84.367	FY 07	<u>68,012</u>
GRANTS FOR STATE ASSESSMENTS AND RELATED ACTIVITIES	84.369	FY 07	<u>9,345</u>
AREA EDUCATION AGENCY:			
TECH-PREP EDUCATION	84.243	FY 07	<u>2,300</u>
SPECIAL EDUCATION - GRANTS TO STATES (PART B)	84.027	FY 07	<u>80,763</u>
TOTAL			<u>\$ 511,239</u>

**Basis of Presentation** - The Schedule of Expenditures of Federal Awards includes the federal grant activity of the Algona Community School District and is presented in conformity with the accrual or modified accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

# **NOLTE, CORNMAN & JOHNSON P.C.**

## **Certified Public Accountants**

(a professional corporation)

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### Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

To the Board of Education of the  
Algona Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Algona Community School District as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated March 19, 2008. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

#### Internal Control Over Financial Reporting

In planning and performing our audit, we considered Algona Community School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Algona Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Algona Community School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and other deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Algona Community School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood a misstatement of Algona Community School District's financial statements that is more than inconsequential will not be prevented or detected by Algona Community School District's internal control. We consider the deficiencies in internal control described in Part II of the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by Algona Community School District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe item II-A-07 is a material weakness.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Algona Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2007 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Algona Community School District's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the District's responses, we did not audit Algona Community School District's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Algona Community School District and other parties to whom Algona Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Algona Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

  
NOLTE, CORNMAN & JOHNSON, P.C.

March 19, 2008

# **NOLTE, CORNMAN & JOHNSON P.C.**

## **Certified Public Accountants**

(a professional corporation)

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### Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133

To the Board of Education of  
Algona Community School District

#### Compliance

We have audited the compliance of Algona Community School District with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2007. Algona Community School District's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to each of its major federal programs is the responsibility of Algona Community School District's management. Our responsibility is to express an opinion on Algona Community School District's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Algona Community School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Algona Community School District's compliance with those requirements.

In our opinion, Algona Community School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007.

#### Internal Control Over Compliance

The management of Algona Community School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered Algona Community School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Algona Community School District's internal control over compliance.



Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the District's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified a deficiency in internal control over compliance that we consider to be a material weakness.

A control deficiency in the District's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to administer a federal program such that there is more than a remote likelihood noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the District's internal control. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item III-A-07 to be a significant deficiency.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the District's internal control. We consider the significant deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item III-A-07 to be a material weakness.

Algona Community School District's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we expressed our conclusions on the District's responses, we did not audit Algona Community School District's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Algona Community School District and other parties to whom Algona Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

  
NOLTE, CORNMAN & JOHNSON, P.C.

March 19, 2008

ALGONA COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2007

Part I: Summary of the Independent Auditor's Results

- (a) An unqualified opinion was issued on the financial statements.
- (b) Significant deficiencies in internal control over financial reporting were disclosed by the audit of the financial statements, including a material weakness.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.
- (d) Significant deficiencies in internal control over major programs were disclosed by the audit of the financial statements, including a material weakness.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit disclosed audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major program was as follows:
  - Individual Program:
    - CFDA Number 84.010 - Title I grants to Local Educational agencies
  - Clustered Programs:
    - CFDA Number 10.553 - School Breakfast Program
    - CFDA Number 10.555 - National School Lunch Program
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Algona Community School District did not qualify as a low-risk auditee.

ALGONA COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2007

Part II: Findings Related to the Basic Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

SIGNIFICANT DEFICIENCIES:

II-A-07 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal were all done by the same person.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However the District should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - We will investigate available alternatives and implement as soon as possible.

Conclusion - Response accepted.

II-B-07 Student Activity Fund - During our audit concerns arose about the propriety of certain expenditures paid from the Student Activity Fund. Inappropriate expenditures would include any expenditure more appropriate to other funds. Moneys in this fund shall be used to support only the cocurricular program defined in department of education administrative rules (298A.8). Fundraisers and donations made to the school should be recorded in the fund in which they could be expended from.

Target donations were being receipted into the Student Activity Fund. These donations do not specify the purpose other than instructional supplies; therefore, Target donations should be receipted into the General Fund for use in all instructional supplies.

Recommendation - The purpose of the Student Activity Fund is to account for financial transactions related to the cocurricular and extracurricular activities offered as a part of the education program for the students established under Iowa Administrative Code 281--12.6(1). The District should review the propriety of receipts and expenditures that are recorded in the Student Activity Fund. More specifics are as follows:

We noted that Lifetouch and Box Tops for Education donations were being receipted into the Student Activity Fund. These donations do not specify the purpose other than instructional supplies; therefore, these donations should be receipted into the General Fund for use in all instructional supplies.

Response - We will comply.

Conclusion - Response accepted.

II-C-07 Purchase Orders - We noted during our audit that purchase orders in the Activity Fund were dated after the supplies had been either ordered or received.

Recommendation - This procedure should be reviewed and necessary changes made so that all disbursements have a pre-numbered purchase order that is approved by the appropriate administrator before the ordering of supplies takes place.

Response - We will review and implement changes as needed.

Conclusion - Response accepted.

II-D-07 Activity Fund Invoices - We noted during our audit expenditures being purchased through the Student Activity Fund for outside clubs.

Recommendation - The District should only pay for bills that pertain to school operated organizations. The District should review its procedures to ensure that they aren't paying for purchases made by outside clubs.

Response - We will review and comply with your recommendations.

Conclusion - Response accepted.

ALGONA COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2007

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

SIGNIFICANT DEFICIENCIES:

CFDA Number 10.553: School Breakfast and  
CFDA Number 10.555: National School Lunch Program  
Federal Award Year: 2007  
U.S. Department of Agriculture  
Passed through the Iowa Department of Education

CFDA Number 84.010: Title I Grants to Local Educational Agencies  
Agency Numbers: 0126-G  
Federal Award Year: 2007  
U.S. Department of Education  
Passed through the Iowa Department of Education

III-A-07 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal were all done by the same person.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However the District should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - We will investigate available alternatives and implement as soon as possible.

Conclusion - Response accepted.

ALGONA COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2007

Part IV: Other Findings Related to Required Statutory Reporting

IV-A-07 Certified Budget - District disbursements for the year ended June 30, 2007 exceeded the amount budgeted in the instruction function.

Recommendation - The budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - We will amend the budget when necessary in the future.

Conclusion - Response accepted.

IV-B-07 Questionable Disbursements - We noted disbursements paid from the Activity Fund for Algona Bucks that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.

Recommendation - The District should review procedures to ensure that all expenditures meet the requirements of the Attorney General's opinion of April, 25, 1979.

Response - We will comply.

Conclusion - Response accepted.

IV-C-07 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

IV-D-07 Business Transactions - Business transactions between the District and District officials or employees are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Heather Young, Teaching Assistant Spouse owns Dazzlin Design	Printing Services	\$3,577
Dawn Bjustrom, Teacher Son performed DJ services	Services	\$300
Lisa Olson, Secretary Spouse supplied apple award bases	Supplies	\$50
Karilyn Claude, Teacher Spouse	Official	\$1,280
Lori Ludwig, Teacher Spouse owns Ludwig Services, Inc.	Supplies	\$2,377

Name, Title and Business Connection	Transaction Description	Amount
Mary Kae Hanson, Teacher Spouse owns Hanson Studio	Photographs	\$247
Sande Rodemeyer, Teacher Son	Official	\$480
Julie Gunderson, Teacher Son	Official	\$630
Jan Struck, Building Secretary Spouse	Official	\$205
Pat Twait, Teacher Son	Services	\$280
Dale Person, Board Member	Official	\$170
Theresa Kuecker, Secretary Son	Official	\$275
Paul and Theresa DeLange, Sub Driver Owns Premier Choice	Fundraising items	\$29,396
Paul and Theresa DeLange, Sub Driver Owns Premier Pizza	Pizza/Concession	\$8,836
Rodney Davis, Board Member Winter sports duty	Service	\$580
Chris and Anita Gerhardt, Teachers Owns Gerhardt Construction	Plaques	\$90
Tracy Harmon, Kitchen Manager	Catering	\$1,016

In accordance with Chapter 279.7A of the Code of Iowa, the transactions with the Board Members do not appear to be a conflict of interest.

In accordance with the Attorney General's opinion dated July 2, 1990, the above transactions with the District's teachers, Kitchen Manager and sub bus drivers do not appear to represent a conflict of interest.

In accordance with the Attorney General's opinion dated November 9, 1976, the above transactions with the family members of the District's employees and board members do not appear to represent a conflict of interest.

IV-E-07 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

IV-F-07 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board, however we were unable to determine how each board member voted when selecting the Board President and Vice-President.

Recommendation - The District needs to document within the board minutes how each board member voted.

Response - We will review and comply.

Conclusion - Response accepted.

IV-G-07 Certified Enrollment - We noted that the number of basic resident student reported to the Iowa Department of Education on line 2 of the Certified Enrollment Certification Form for October 2006 was understated by 1 student, which resulted in understating line 7 by 1 student.

Recommendation - The District should contact the Iowa Department of Education and the Department of Management to resolve this matter.

Response - We will contact the Iowa Department of Education and the Department of Management .

Conclusion - Response accepted.

IV-H-07 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.

IV-I-07 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely, and we noted no significant deficiencies in the amounts reported.

IV-J-07 Financial Condition - We noted during our audit that there were three negative individual account balances totaling \$15,950 in the Student Activity Fund. The District also had a deficit unrestricted fund balances in the General Fund of \$102,264 and unrestricted net assets in the Nutrition Fund of \$4,276.

Recommendation - The District should continue to monitor this fund and investigate alternatives to eliminate the deficit fund balances. The District should review purchase approval procedures for the Student Activity Fund and may wish to require additional approval before ordering goods or services from these accounts.

Response - The District will continue to monitor and investigate alternative to make the necessary corrections needed.

Conclusion - Response accepted.